

## Message Text

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ACTION NEA-09

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CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

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FM AMEMBASSY COLOMBO

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E.O. 11652 N/A

TAGS: ECON, EINV

SUBJ: GSL NATIONALIZATION POLICY: TWO PRIVATE FIRMS TAKEN OVER

REF: COLOMBO 3058 (NOVEMBER 1, 1974)(NOTAL)

1. SUMMARY: DURING LAST TWO WEEKS GSL TOOK OVER TWO SMALL PRIVATE FIRMS: (1) UK INCORPORATED COLOMBO GAS AND WATER CO., AND (2) VERY SMALL, REPORTEDLY INDIAN-OWNED ROOFING TILE FACTORY. MEANWHILE THERE IS INCREASING PUBLICITY AND GSL OBJECTION TO LONDON TRANSFERS OF STERLING AGRICULTURAL ESTATE CHARES. UK HIGH COMMISSION (UKHC) DISCOUNTS COLOMBO GAS TAKEOVER BECUASE OF COMPANY'S PECULIER CONOMIC AND POLITICAL CIRCULSTANCES, BUT UKHC IS CONCERNED OVER ANY POSSIBLITY OF FURTHER TAKEOVER OF UK-OWNED ASSETS. END SUMMARY.

2. ON FEBRUARY 24, GSL ANNOUNCED TAKEOVER UNDER 1971 BUSINESS ACQUISITION ACT OF OLD (ESTABLISHED 1872) UK INCORPORATED COLOMBO GAS AND WATER CO. LTD. WHICH MAKES GAS, COKE, AND OTHER DERIVATIVE PRODUCTS FROM IMPORTED COAL. CEYLON PETROLEUM CORPORATION (CPC) WILL ACQUIRE PHYSICAL ASSETS AND ASSUME

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MANAGEMENT. ACTION HAS BEEN LONG ANTICIPATED FOLLOWING THE

UTILITY'S RECENT HISTORY OF LABOR TROUBLES (3 MONTHS STRIKE IN EARLY 1974), RAW MATERIAL SHORTAGES, AND SERVICE INTERRUPTIONS. SIGNIFICANT POLITICAL FACTOR IS THAT FORMER CEYLON GOVERNOR-GENERAL SIR OLIVER GOONETILLEKE IS LARGE SHAREHOLDER IN COMPANY. HE NOW LIVES IN DE FACTO EXILE IN THE UK AND HAS BECOME BRITISH NATIONAL.

3. UKHC ECONOMIC OFFICER CONFIRMED NEWSPAPER REPORTS THAT THE CPC HAD OFFERED TO BUY GAS CO. ASSETS LAST YEAR, BUT DIRECTORS IN LONDON REFUSED TO SELL. UKHC IS FOLLOWING VERY CLOSELY WHOLE POLITICALLY LOADED ISSUE OF POSSIBLE NATIONALIZATION OF REMAINING STERLING INVESTMENTS IN CEYLON, ESPECIALLY TEA ESTATES, BUT DISCOUNTS ACTION RE GAS COMPANY EVEN THOUGH IT FIRST STERLING COMPANY TAKEOVER BY THIS GSL. AS SMALL ANTICUATED UTILITY, IT HAS BEEN OBVIOUS NATIONALIZATION TARGET. FORTHERMORE, UK DOES NOT WANT TO BE IN POSITION OF APPEARING TO PROTECT PROPERTY OF POLITICALLY PROMINENT CEYLONSE WHO MIGHT BE LIABLE TO CRIMINAL CHARGES FOR ILLEGAL FOREIGN EXCHANGE TRANSACTIONS WERE HE TO RETURN TO CEYLON. CASE IS AWKWARD FOR UKHC, HOWEVER, BECAUSE HIGH COMMISSIONER HAS EXPLICITLY DISCUSSED STERLING COMPANIES' STATUS WITH PRIME MINISTER, WHO, ACCORDING TO UKHC OFFICER, ASSURED HIM NO STERLIN NATIONALIZATION WOULD OCCUR AT LEAST THROUGH END THIS GOVERNMENTS TERM IN 1977.

4. WITH RESPECT TO ONGOING BUT NOW LESS INTENSE DEBATE WITHIN U.F. COALITION OVER FURTHER NATIONALIZATION, LEFT-WING GSL MINISTERS (FINANCE, N.M. PERERA; TRADE, T.B. ILANGARATNE; PLANTATIONS, COLVIN DE SILVA; AND HOUSING, PIETER KEUNEMAN) ATTENDED PUBLIC CELEBATION OF GAS CO TAKEOVER AT COLOMBO PLANT. THEIR SPEECHES PRAISED GSL ACTION, SAYING IT WAS IN FUTHER FULFILMENT OF U.F. PLEDGE TO EXPAND STATE OWNERSHIP OF ECONOMY. JOINT COUNCIL OF TRADE UNION ORGANIZATIONS (JCTUO) AND ALSO CONGRATULATED MINISTER ON TAKEOVER.

5. MEANWHILE, IN APPARENTLY UNRELATED CASE, A SMALL LIMITED OFFICIAL USE

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PRIVATE ROOFING TILE FACTORY, VIJAYA TILE CO. LTD., WAS TAKEN OVER BY THE CEYLON CERAMICS CORP FOLLOWING A DISPUTE OVER RESIDENCE VISAS AND OWNERSHIP WITH TWO REPORTEDLY INDIAN NATIONALS WHO OWNED 51PERCENT OF THE ENTERPRISE. ACCORDING TO PRESS REPORTS, THE TAKEOVER WILL ALLOW AN IMMEDIATE REDUCTION IN THE PRICE OF TILE BUT THERE HAS BEEN NO EDITORIAL OR POLITICAL COMMENT.

6. GAS CO TAKEOVER SHOULD BE SEEN IN CONTEXT OF INCREASING PUBLICITY GIVEN TO TRANSFERS IN LONDON OF STERLIN ESTATE SHARES. SOME OF THESE HAVE ALLEGEDLY INVOLVED VARIOUS COMBINATIONS OF CEYLONES, HONG KONG, AND ARAB OIL-EXPORTING-NATION INVESTORS. ON MARCH 5 THE GSL ANNOUNCED FORMALLY ITS OBJECTION TO SUCH OWNERSHIP TRANSFERS BEYOND ITS JURISDICTION AND WITHOUT ITS APPROVAL. THE ANNOUNCEMENT GOES ON TO STATE THAT (1) THE ESTATES (CONTROL OF TRANSFERS AND ACQUISITION) ACT OF 1972 APPLIES TO SUCH CASES AND THAT (2) GSL IS WILLING TO BUY ON REASONABLE TERMS ANY SUCH PROPERTY IN SRI LANKA.

COMMENT: ALTHOUGH COMBINATION OF GAS CO. TAKEOVER AND GSL'S RATHER SPECIFIC WARNING ON EXTERNAL TRANSFERS OF STERLING ESTATE OWNERSHIP INCREASES PRESSURE ON BRITISH-OWNED PRIVATE FIRMS, WE BELIEVE PM'S STATED DESIRE TO GO SLOW ON FURTHER NATIONALIZATION STILL PREVAILS. IN CASE OF BRITISH ASSETS, UK APPARENTLY HAS MADE CLEAR THAT EXTENSIVE NATIONALIZATION WOULD NOT HELP BILATERAL RELATIONS. WITH RESPECT TO OVERALL POSITION OF PRIVATE SECTOR AND INVESTMENT CLIMATE, ARAB OIL PRODUCERS (MOST IMPORTANTLY IRAN AND KUWAIT), GERMANS, AND JAPANESE HAVE REPORTEDLY MADE CLEAR THAT BETTER GSL INCENTIVES AND GUARANTEES WILL BE NECESSARY TO ATTRACT CAPITAL AND COULD EVEN BE FACTOR IN AID DECISIONS.

VAN HOLLEN

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